



ASSOCIATION OF ACCOUNTING TECHNICIANS OF SRI LANKA

LEVEL I EXAMINATION - JULY 2024

(101) FINANCIAL ACCOUNTING

17-08-2024

Morning

[09.00 – 12.00]

• **Instructions to candidates** (Please Read Carefully):

- (1) **Time:** 03 hours.
- (2) **All questions should be answered.**
- (3) **Answers should be in one language, in the medium applied for, in the booklets provided.**
- (4) **Submit all workings and calculations. State clearly assumptions made by you, if any.**
- (5) **Use of Non-programmable calculators is only permitted.**
- (6) **Action Verb Check List with definitions is attached. Each question will begin with an action verb excluding OTQ's. Candidates should answer the questions based on the definition of the verb given in the Action Verb Check List.**
- (7) **100 Marks.**

No. of Pages : 10

No. of Questions : 06

**SECTION A**

**Objective Test Questions (OTQs)**

(Total 40 marks)

**Question 01**

Select the most correct answer for question No. 1.1 to 1.10. Write the number of the selected answer in your answer booklet with the number assigned to the question.

**1.1** The residual interest in assets of the entity after deducting all its liabilities is:

- (1) Income.                      (2) Equity.                      (3) Expense.                      (4) Cash.

**1.2** "The parliament of Sri Lanka has recently passed the Online Safety Act No. 9 of 2024".

Which one of the following environmental factors represents the above statement?

- (1) Economic Environment.                      (2) Legal Environment.  
(3) Technological Environment.                      (4) Social Environment.

**1.3** Select from the following, the correct source document raised by the storekeeper at the time of receiving goods, confirming that the goods were received:

- (1) Purchase Order (PO).                      (2) Good Received Note (GRN).  
(3) Material Requisition Note (MRN).                      (4) Debit Note.

**1.4** The following information was extracted from the books of **Sri Traders**, a sole proprietorship for the year ended 31<sup>st</sup> March 2024:

|  | <b>Rs.</b> |
|--|------------|
| Total assets as at 31 <sup>st</sup> March 2024 | 4,800,000  |
| Liabilities as at 31 <sup>st</sup> March 2024  | 750,000    |
| Capital as at 01 <sup>st</sup> April 2023      | 2,000,000  |
| Drawings made during the year                  | 400,000    |
| Additional capital introduced during the year  | 800,000    |

Based on the above information, the profit for the year ended 31<sup>st</sup> March 2024 was:

(1) Rs.1,650,000/-. (2) Rs.2,050,000/-. (3) Rs.2,450,000/-. (4) Rs.1,800,000/-.

**1.5** The prime entry book which is used to record by a seller for return of the good sold on credit is:

- (1) Returns Outwards Day Book. (2) Returns Inwards Day Book.  
 (3) Purchase Day Book. (4) Sales Day Book.

**1.6 Sam Traders** purchased a motor vehicle for Rs.4,000,000/- on 01<sup>st</sup> April 2022. The policy of the business is to provide depreciation on the diminishing (reducing) balance method at the rate of 20% per annum. The carrying value (Net Book Value) of the motor vehicle as at 31<sup>st</sup> March 2024 was:

(1) Rs.2,400,000/-. (2) Rs.3,200,000/-. (3) Rs.2,560,000/-. (4) Rs.3,000,000/-.

**1.7 Kusal** started a furniture business (a sole proprietorship) introducing a motor vehicle worth of Rs.2,000,000/- and Rs.500,000/- in cash. Select from the following, the correct impact to the accounting equation from this transaction:

|     | <b>Assets (Rs.)</b> | = | <b>Capital (Equity)(Rs.)</b> | + | <b>Liabilities (Rs.)</b> |
|-----|---------------------|---|------------------------------|---|--------------------------|
| (1) | + 2,500,000         | = | + 2,500,000                  |   | -                        |
| (2) | + 500,000           | = | + 500,000                    |   | -                        |
| (3) | + 2,500,000         | = | -                            |   | + 2,500,000              |
| (4) | + 2,500,000         | = | + 500,000                    |   | + 2,000,000              |

**1.8** A provision should be made for doubtful debts from the debtors. The accounting concept relating to this is:

- (1) Entity Concept. (2) Materiality Concept.  
 (3) Prudence Concept. (4) Consistency Concept.

**1.9** Which one of the following transactions is **not** recorded in the General Journal?

- (1) Purchase of a computer for office use in cash.
- (2) Selling a motor vehicle used in the business on credit.
- (3) An entry of correction of an error.
- (4) Opening journal entries.

**1.10 Rani Ltd.** has paid Rs.120,000/- as an insurance premium for the factory building for the calendar year 2024. The accountant of the business recorded Rs.30,000/- as insurance expenses and the balance Rs.90,000/- as pre-paid insurance for the financial year ended 31<sup>st</sup> March 2024.

The accounting concept relating to this treatment is:

- (1) Accrual Concept.
- (2) Going Concern Concept.
- (3) Revenue Recognition Concept.
- (4) Matching Concept.

*State whether each of the following statements from 1.11 to 1.15 is **True** or **False**. Write the answer (True/False) in your answer booklet with the number assigned to the question.*

**1.11** Income and expenses are the elements of Income Statement.

**1.12** Liabilities which are expected to be settled after 12 months period can be categorized under the current liabilities.

**1.13** Categorizing assets of an entity as current and non-current assets is a practice of going concern concept in preparing the financial statements.

**1.14** Confidentiality is a fundamental qualitative characteristic of financial information.

**1.15** Computers purchased for resale of a business are recorded under the Property, Plant and Equipment.

*Write the answers for question No. 1.16 to 1.20 in your answer booklet with the number assigned to the question.*

**1.16** List two(02) reasons for accounting errors.

**1.17** Define the term “a Liability”.

**1.18** Briefly explain the meaning of “Specialized Accounting Software”.

**1.19** State two(02) reasons as to why an entity prepares bank reconciliation statements.

**1.20** Briefly explain the “Money Measurement Concept”. (02 marks each, Total 40 marks)

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*End of Section A*

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## **SECTION B**

(Total 40 marks)

### **Question 02**

**Rohith Hardware** is a sole proprietorship started by **Rohith** on 01<sup>st</sup> April 2023 by investing Rs.2,250,000/- in cash.

The following additional information is also provided:

- (1) Summary of the Cash Control Account (Cash Book) for the year ended 31<sup>st</sup> March 2024 was as follows:

#### **Cash Control Account (Cash Book)**

| Receipts                      | Dr (Rs.)         | Payments  | Cr (Rs.)         |
|-------------------------------|------------------|---|------------------|
| Investment of Initial Capital | 2,250,000        | Cash Purchases  | 850,000          |
| Cash Sales                    | 5,200,000        | Payments to Trade Creditors                               | 3,750,000        |
| Receipts from Trade Debtors   | 1,250,000        | Salaries and Wages  | 950,000          |
|                               |                  | Drawings  | 100,000          |
|                               |                  | Amount transferred to petty cash                          | 60,000           |
|                               |                  | Machinery<br>(Purchased on 01 <sup>st</sup> January 2024) | 1,000,000        |
|                               |                  | Office Rent   | 900,000          |
|                               |                  | Electricity   | 150,000          |
|                               |                  | Balance C/F   | 940,000          |
|                               | <b>8,700,000</b> |   | <b>8,700,000</b> |

- (2) Receivable and Payable balances as at 31<sup>st</sup> March 2024 were as follows:

|                 | Rs.       |
|-----------------|-----------|
| Trade Debtors   | 1,600,000 |
| Trade Creditors | 1,100,000 |
| Salary Payable  | 80,000    |

- (3) Machinery is to be depreciated at the rate of 20% per annum at cost on the straight-line basis.
- (4) The following expenses have been paid from the petty cash:
- (i) Water bills : Rs.12,000/-.
  - (ii) Stationery : Rs.8,000/-.
  - (iii) Travelling & Transport : Rs.25,000/-.
- (5) Office rent payment includes a rent advance of Rs.180,000/- paid for the period from April 2024 to June 2024 period.

**You are required to:**

**Prepare the Trial Balance of Rohith Hardware as at 31<sup>st</sup> March 2024.**

(10 marks)

### Question 03

**Rishard Aluminum** is a manufacturer of Aluminum Fabrications and the following information was extracted from the books of accounts of **Rishard Aluminum** for the year ended 31<sup>st</sup> March 2024:

| Description  | Rs.       |
|--|-----------|
| Raw Material Stock as at 01 <sup>st</sup> April 2023 | 380,000   |
| Raw Material Purchased during the year               | 3,600,000 |
| Work-In-Progress as at 01 <sup>st</sup> April 2023   | Nil       |
| Carriage Inwards of Raw Material                     | 55,000    |
| Direct Wages to Production Workers                   | 1,800,000 |
| Maintenance of Machinery                             | 120,000   |
| Security Charges                                     | 450,000   |
| Electricity  | 800,000   |
| Rent   | 570,000   |
| Depreciation - Plant and Machinery                   | 120,000   |
| Depreciation - Motor Lorry                           | 360,000   |

The following additional information is also provided:

(1) Closing inventory balances as at 31<sup>st</sup> March 2024 were valued as follows:

| Description                             | Rs.     |
|---|---------|
| Raw Material Stock (At cost)            | 150,000 |
| Work-in-Progress (Valued at Prime Cost) | 180,000 |

(2) The following expenses should be allocated as follows:

| Expenses         | Factory | Office |
|------------------|---------|--------|
| Electricity      | 75%     | 25%    |
| Rent             | 70%     | 30%    |
| Security Charges | 80%     | 20%    |

(3) Plant & Machinery are used to manufacture aluminum fabrications while motor lorry is used by the business to deliver the manufactured items to customers.

(4) Manufactured items are transferred to the trading division at a profit of 15% on the cost of production.

**You are required to:**

**Prepare** the Manufacturing Cost Statement (Manufacturing Account) of **Rishard Aluminum** for the year ended 31<sup>st</sup> March 2024. (10 marks)

## Question 04

The trial balance of **Pubudu Traders** as at 31<sup>st</sup> March 2024 prepared by the accounts executive did not agree and the difference of Rs.27,000/- was debited to a suspense account.

The following reasons for the difference were identified subsequently:

- (1) A casual salary payment of Rs.8,000/- for the month of March 2024 has been recorded only in the cash book.
- (2) Interest on bank loan of Rs.6,000/- has been correctly recorded in the cash book. However, it was erroneously credited to interest income account.
- (3) Purchase of a printer worth of Rs.80,000/- on 01<sup>st</sup> October 2023 has been debited to the computer repair account. However, this was correctly recorded in the cash book. Applicable depreciation on the printer of 10% per annum at cost on the straight-line basis has also not been recorded in the books of accounts.
- (4) An accrued electricity bill of Rs.5,000/- for the month of March 2024 has been recorded twice in the relevant books of accounts.
- (5) Rs.12,500/- worth of discounts given to debtors has been credited to discounts received account. However, this has been correctly recorded in the debtors' control account.
- (6) Rent expense of Rs.24,000/- paid for the month of January 2024 has been recorded in the Rent Expenses account as Rs.42,000/-. However, corresponding credit entry was recorded correctly.

**You are required to:**

**Prepare** the following:

- (a) Journal entries to rectify the above errors. (07 marks)
  - (b) Suspense Account. (03 marks)
- (Total 10 marks)

## Question 05

(A) **Waruni** operates a retail business. The following transactions were occurred during the month of January 2024:

- (1) Purchased goods worth of Rs.250,000/- on credit terms for resale.
- (2) Sold goods costing of Rs.150,000/- for Rs.200,000/- on cash basis.
- (3) Interest income received on the savings account was Rs.2,000/-.
- (4) Paid monthly electricity bill of Rs.6,000/-.
- (5) Paid a bank loan installment of Rs.15,000/- where Rs.5,000/- was the interest portion.

**You are required to:**

**State** the impact of each of the above transactions to the following Accounting Equation.

$$[\text{Inventory} + \text{Cash} = \text{Equity (Capital)} + \text{Liabilities}] \quad (05 \text{ marks})$$

(B) As at 31<sup>st</sup> January 2024, the Bank Statement of **Anushka Beauty Saloon** shows a favorable balance of Rs.27,000/- while the Cash Control Account shows a debit(favorable) balance of Rs.25,000/-.

Subsequently, the Accounts Executive of the business has noted the following reasons for the difference between the Bank Statement's balance and the Cash Control Account's balance:

- (1) The bank has debited the loan installment of Rs.15,000/- as per the standing order instruction given. However, this has not been recorded in the cash book.
- (2) On 10<sup>th</sup> January 2024, the bank has debited Rs.500/- as bank charges and this was not recorded in the cash book.
- (3) Interest income of Rs.8,000/- on a fixed deposit has been credited to the bank account, by the bank. But it was not considered in the cash book.
- (4) A cheque of Rs.18,500/- was issued on 30<sup>th</sup> January 2024 but it was not presented for payment to the bank as at 31<sup>st</sup> January 2024.
- (5) A cheque of Rs.9,000/- was deposited to the bank on 29<sup>th</sup> January 2024 however, it was not realized as at 31<sup>st</sup> January 2024.

**You are required to:**

**Prepare** the following:

- (a) Adjusted Cash Control Account (Cash Book). (03 marks)
  - (b) Bank Reconciliation Statement as at 31<sup>st</sup> January 2024. (02 marks)
- (Total 10 marks)

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*End of Section B*

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## **SECTION C**

(Total 20 marks)

### Question 06

**Nimsara Furniture** is a sole proprietorship owned by **Nimsara** and the Trial Balance of **Nimsara Furniture** as at 31<sup>st</sup> March 2024 was as follows:

**Nimsara Furniture**  
**Trial Balance as at 31<sup>st</sup> March 2024** (Rs. '000)

| Description   | Dr.           | Cr.           |
|---|---------------|---------------|
| Plant and Equipment at Cost:                                |               |               |
| Office Equipment  | 8,000         |               |
| Furniture and Fittings                                      | 2,500         |               |
| Motor vehicle   | 2,000         |               |
| Accumulated Depreciation as at 01 <sup>st</sup> April 2023: |               |               |
| Office Equipment  |               | 2,000         |
| Furniture and Fittings                                      |               | 1,250         |
| Motor vehicle   |               | 500           |
| Sales   |               | 77,500        |
| Purchases   | 46,300        |               |
| Inventory as at 01 <sup>st</sup> April 2023                 | 7,900         |               |
| Trade Receivables   | 2,250         |               |
| Trade Payables  |               | 3,250         |
| Cash at Bank  | 1,000         |               |
| Cash in Hand  | 70            |               |
| Bank Loan   |               | 500           |
| Salaries and Wages  | 12,800        |               |
| Insurance   | 240           |               |
| Security Charges  | 800           |               |
| Electricity   | 2,250         |               |
| Sales Commission  | 900           |               |
| Office Rent Paid  | 2,600         |               |
| Capital Account as at 01 <sup>st</sup> April 2023           |               | 4,610         |
| <b>Total</b>  | <b>89,610</b> | <b>89,610</b> |



The following additional information is also provided:

- (1) The closing Inventory as at 31<sup>st</sup> March 2024 was valued at cost of Rs.5,200,000/-.
- (2) Electricity bill of Rs.32,000/- for the month of March 2024 has not been paid as at 31<sup>st</sup> March 2024.
- (3) On 01<sup>st</sup> January 2024, a bank loan of Rs.500,000/- has been obtained from **ABC Bank** to expand the business and agreed to pay interest of Rs.15,000/- monthly and to settle the loan in full within 12 months. **Nimsara** has neither paid the agreed interest nor the capital for the period from January 2024 to March 2024.
- (4) The policy of the business is to provide the depreciation on the straight-line basis at cost as follows:

|                        |   |               |
|------------------------|---|---------------|
| Office Equipment       | : | 20% per annum |
| Furniture and Fittings | : | 20% per annum |
| Motor vehicle          | : | 25% per annum |
- (5) The rent agreement of the office was entered into on 01<sup>st</sup> September 2023 by paying 6 months' rent also as key money which will be refunded at the end of the agreement period, i.e. after 2 years. Monthly office rent is Rs.200,000/-.
- (6) **Nimsara** decided to write-off a long outstanding debtor balance of Rs.50,000/- as a bad debt and to make a doubtful provision of 5% from the remaining trade receivable balance as at 31<sup>st</sup> March 2024.

**You are required to:**

**Prepare** the following:

- (a) Statement of Comprehensive Income for the year ended 31<sup>st</sup> March 2024. (12 marks)
  - (b) Statement of Financial Position as at 31<sup>st</sup> March 2024. (08 marks)
- (Total 20 marks)

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*End of Section C*

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## **ACTION VERBS CHECK LIST**

| Level of Competency  | Description                      | Action Verbs    | Verb Definitions                                    |
|----------------------|----------------------------------|-----------------|---|
| <b>Knowledge (1)</b> | Recall Facts and Basic Concepts. | <b>Draw</b>     | Produce a picture or diagram.                       |
|                      |                                  | <b>Relate</b>   | Establish logical or causal connections.            |
|                      |                                  | <b>State</b>    | Express details definitely or clearly.              |
|                      |                                  | <b>Identify</b> | Recognize, establish or select after consideration. |
|                      |                                  | <b>List</b>     | Write the connected items.                          |

| Level of Competency      | Description                                 | Action Verbs     | Verb Definitions  |
|--------------------------|---|------------------|---|
| <b>Comprehension (2)</b> | Explain & Elucidates Ideas and Information. | <b>Recognize</b> | Show validity or otherwise, using knowledge or contextual experience. |
|                          |   | <b>Interpret</b> | Translate into understandable or familiar terms.                      |
|                          |   | <b>Describe</b>  | Write and communicate the key features.                               |
|                          |   | <b>Explain</b>   | Make a clear description in detail using relevant facts.              |
|                          |   | <b>Define</b>    | Give the exact nature, scope or meaning.                              |

| Level of Competency    | Description                                | Action Verbs       | Verb Definitions  |
|------------------------|--|--------------------|---|
| <b>Application (3)</b> | Use and Adapt Knowledge in New Situations. | <b>Reconcile</b>   | Make consistent / compatible with another.              |
|                        |  | <b>Graph</b>       | Represent by graphs.                                    |
|                        |  | <b>Assess</b>      | Determine the value, nature, ability or quality.        |
|                        |  | <b>Solve</b>       | Find solutions through calculations and/or explanation. |
|                        |  | <b>Prepare</b>     | Make or get ready for a particular purpose.             |
|                        |  | <b>Demonstrate</b> | Prove or exhibit with examples.                         |
|                        |  | <b>Calculate</b>   | Ascertain or reckon with mathematical computation.      |
|                        |  | <b>Apply</b>       | Put to practical use.                                   |

| Level of Competency | Description                                      | Action Verbs         | Verb Definitions                                      |
|---------------------|--|----------------------|---|
| <b>Analysis (4)</b> | Draw Connections Among Ideas and Solve Problems. | <b>Communicate</b>   | Share or exchange information.                        |
|                     |  | <b>Outline</b>       | Make a summary of significant features.               |
|                     |  | <b>Contrast</b>      | Examine to show differences.                          |
|                     |  | <b>Compare</b>       | Examine to discover similarities.                     |
|                     |  | <b>Discuss</b>       | Examine in detail by arguments.                       |
|                     |  | <b>Differentiate</b> | Constitute a difference that distinguishes something. |
|                     |  | <b>Analyze</b>       | Examine in details to find the solution or outcome.   |